

Book Review: Keynes: The Return of The Master

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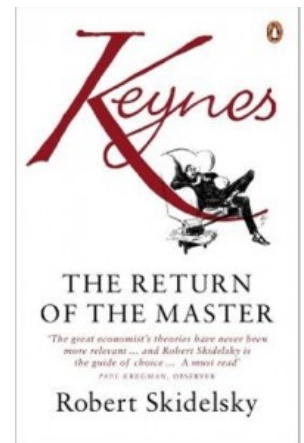
Steve Coulter reviews a comprehensive and timely analysis of Keynes' contributions, and finds his work to still be very relevant in the age of the 'great recession', despite some unfair dismissals of opposing schools of thought.

Keynes: The Return of The Master. By Robert Skidelsky. Penguin. Published 30 Sept 2010.

Just as his diagnosis of the 1930s slump made his reputation, so the 'great recession' of the noughties has rehabilitated it. John Maynard Keynes, the patron saint of activist government, is arguably overdue a reappraisal and Robert Skidelsky, author of a magisterial three-volume biography of the Cambridge economist, is obviously the man to do it.

This, the paperback edition of Skidelsky's timely September 2009 volume, is fully revised and updated to include more analysis of the policy responses to the financial crisis and recession. The great virtue of the book is the amount of ground it covers, and the fact that this expansiveness does not come at the cost of a lack of insight. This makes it a worthwhile read even for those not enamoured with Keynes' interventionist philosophy.

As well as a decent synopsis of the financial crisis and recession, Skidelsky provides a thorough explanation of the place of Keynesianism in economic theory and practice; an exposition of Keynes's life and accompanying moral philosophy; an empirical comparison of the performance of the Keynesian 'golden age' with the subsequent 'Washington consensus' era; and a forward-looking set of policy recommendations to deal with the aftermath of the crash.



The clashes over policy detail between Keynesian and neo-classical economists are pretty familiar, so Skidelsky focuses on foundational disagreements. His key point is that Keynes was right because his economic theories were grounded in psychology, history and personal experience, rather than abstract mathematics. Keynes didn't just diverge from the neo-classicals, he was a different kind of economist entirely. Economics for him was a moral, not a natural, science that was not reducible to equations.

Keynes' own experience with stock markets, where he made (and lost) several fortunes, convinced him of the importance of 'animal spirits' in determining investment behaviour. These were fundamentally not rational and were as likely to be influenced by panic and herd behaviour as by cool calculation, even in the rare instances where reliable information was as abundant as the neo-classicals claimed. This fostered in Keynes an approach to knowledge and rationality that was entirely different to the neo-classical economists and Skidelsky, on Keynes's behalf, is scathing on the intellectual poverty of late twentieth century academic economics.

The author's zeal for skewering the opponents of Keynesianism tends to go a bit far. Rational expectations are dismissed as motivated 'mainly by a hatred of government'. There is little discussion of what made Keynesian activism self-defeatingly prone to complacency and profligacy by the governments which practiced it. Public choice, precisely the branch of political economy which analyses the capture of the state by bureaucratic and producer interests, receives short shrift.

Merely because neo-classical economics has taken an overdue intellectual battering does not mean Keynesianism can take its place by default. However valuable Keynes's insights, the world has moved on. Nevertheless, Skidelsky's fascinating book reminds us that there are always alternatives to the intellectual status quo.

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